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Wealth and Economic Status: A Perspective on Racial Inequity

Wealth and Economic Status: A Perspective on Racial Inequity

William P. O'Hare

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FOREWORD

One method of assessing the progress of blacks in achieving economic parity with whites--and probably the most prevalent way--is to compare their incomes with those of whites. Researchers use measures of income to compare the economic status of blacks and whites because income data are readily available from federal sources and are relatively easy to understand. And income clearly has an enormous affect on one's economic well-being. Yet families often have assets in addition to income that affect their economic well-being, such as savings, investments, a home, and property. This work by Dr. William P. O'Hare provides some new insights about the progress of blacks in achieving economic parity with whites by using information on the wealth of families--that is, accumulated assets--to compare the economic status of blacks and whites.

Dr. O'Hare's work is one of several studies of the economic condition of black Americans that the Joint Center has undertaken recently. It complements, for example, The Changing Patterns of Black Family Income, by Henry Felder. Dr. O'Hare's report was prepared with the assistance of Robert Oram, staff analyst, and Valerie Colbert, student intern, at the Joint Center.

Eddie N. Williams
President
October 1983

1. INTRODUCTION

Questions about the economic status of black Americans have stimulated a great deal of study and public debate. One of the most important questions has been whether blacks are moving toward parity with whites--whether blacks are "closing the gap."

Efforts to answer that question have focused primarily on measures of income. The reasons for this emphasis are clear: Income is an economic concept that is easily understood, and data on income are readily available. Agencies such as the Internal Revenue Service, the Census Bureau, and the Bureau of Labor Statistics have spent decades developing ways to collect, assess, and disseminate data on income.

However, measures of income fail to convey a complete picture of economic status. A broader view can be gained by studying information on the wealth that blacks and whites have accumulated. When personal wealth (assets minus liabilities) is used to measure economic status, the gap between blacks and whites is significantly larger than the differences in income data alone would suggest. On the other hand, the wealth of blacks relative to that of whites has almost doubled since the late 1960s, while relative incomes have remained the same.

Personal wealth reflects the net value of property a family or an individual has accumulated, whether in the form of a home or other real estate, household goods, savings and investments, or the assets of a business or farm. In many ways, wealth is a better indicator of economic well-being than income. Income is a transitory measure reflecting how much has been earned in an hour, week, month, or year. It can vary from week to week or year to year. Wealth, on the other hand, is a more stable indicator of status or position in society. Wealth is accumulated slowly over a lifetime and seldom changes quickly, except through inheritance. Past income does not indicate the resources currently available to an individual, because it may have been spent as fast as it was received. Wealth, however, reflects

savings and investments that can be drawn on in times of need. It also reflects those resources that can be passed on from one generation to the next.

One reason analysts have not dealt extensively with differences in wealth between blacks and whites is that data on wealth are not easy to come by. It is relatively easy to obtain information on income from pay stubs, tax returns, or bank records on interest paid. Information on equity in a house or vehicle or the value of household goods is more difficult to compile. Moreover, information on personal wealth, as it usually is collected, is more subjective than information on income. The dollar value of a paycheck or interest received on a savings account is clear; by contrast, the value of a house or of household goods, or even a car, depends on such factors as demand, interest rates, and other market conditions.

Nevertheless, some useful data on wealth have been gathered. This paper uses wealth data from the 1979 Income Survey Development Program (ISDP) conducted by the U.S. Bureau of the Census for the Department of Health and Human Services, to gather information on income, wealth, and participation in government assistance programs.* Data from 1979 are compared with the results from a similar study conducted in 1967 in order to ascertain changes in the relative wealth and wealth composition of blacks and whites over this period.

Rather than sprinkle caveats throughout the remainder of the text, let me mention at the outset that the wealth data used in this study are tenuous. In addition to sampling errors and reporting errors, there are unresolved problems of imputation and sample weighting that cloud the accuracy of these statistics. (See the appendix, in which the data sources and some of the data limitations are discussed.) Generally I have limited the analysis to areas where these problems are likely to be minimal.

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* The ISDP was designed to test methods for collecting information on family and household income and on participation in government-funded programs such as Food Stamps, Medicaid, and subsidized housing. ISDP was the first stage in a major program, which will begin field operations in the fall of 1983, called the Survey of Income and Program Participation (SIPP). Once under way, it will produce yearly measures of wealth and other characteristics of families, which have not been available before. The appendix explains how wealth is measured in this paper and discusses some of the limitations of the ISDP data.

2. INCOME AND WEALTH

Although people with more income generally have more wealth, these measures are not interchangeable. The relationship between income and wealth is not a simple one. People can obtain wealth that is totally unrelated to their income, through inheritance, for example. On the other hand, income can be spent in ways that result in no wealth accumulation whatsoever.

Felder (1983) shows that the yearly income of black families has remained at about 60 percent that of whites for the past two decades. But for many reasons, income statistics do not present a complete picture of the economic position of blacks in this country. When the wealth of black households is compared to that of whites, we find that the average black household has only about one-third the wealth of the average white household--$24,608 for blacks compared with $68,891 for whites (Figure 1). Although blacks make up 12 percent of the nation's households, they hold only 4 percent of all personal wealth. As of 1979, blacks held approximately $211 billion in personal wealth, compared to $4.875 trillion held by whites (Table 1).

The black/white difference in per capita wealth is larger than the difference in family or household wealth because blacks have larger families. In March 1979, the average white household consisted of 2.74 persons, while the average black household was made up of 3.10 persons. The per capita wealth of blacks was $7,938; that of whites was $25,142. The average household wealth of whites was 2.8 times that of blacks, but the per capita wealth of whites was 3.2 times that of blacks.

When we break total wealth into categories of assets, we see two reasons why blacks have far less wealth than whites. First, in every asset category examined, a smaller proportion of blacks than whites own assets (Table 2). For example, the data from the ISDP show that 62.4 percent of the white families had some equity in a home, compared with 47.9 percent of black families. (Other data sources, such as the Decennial Census and

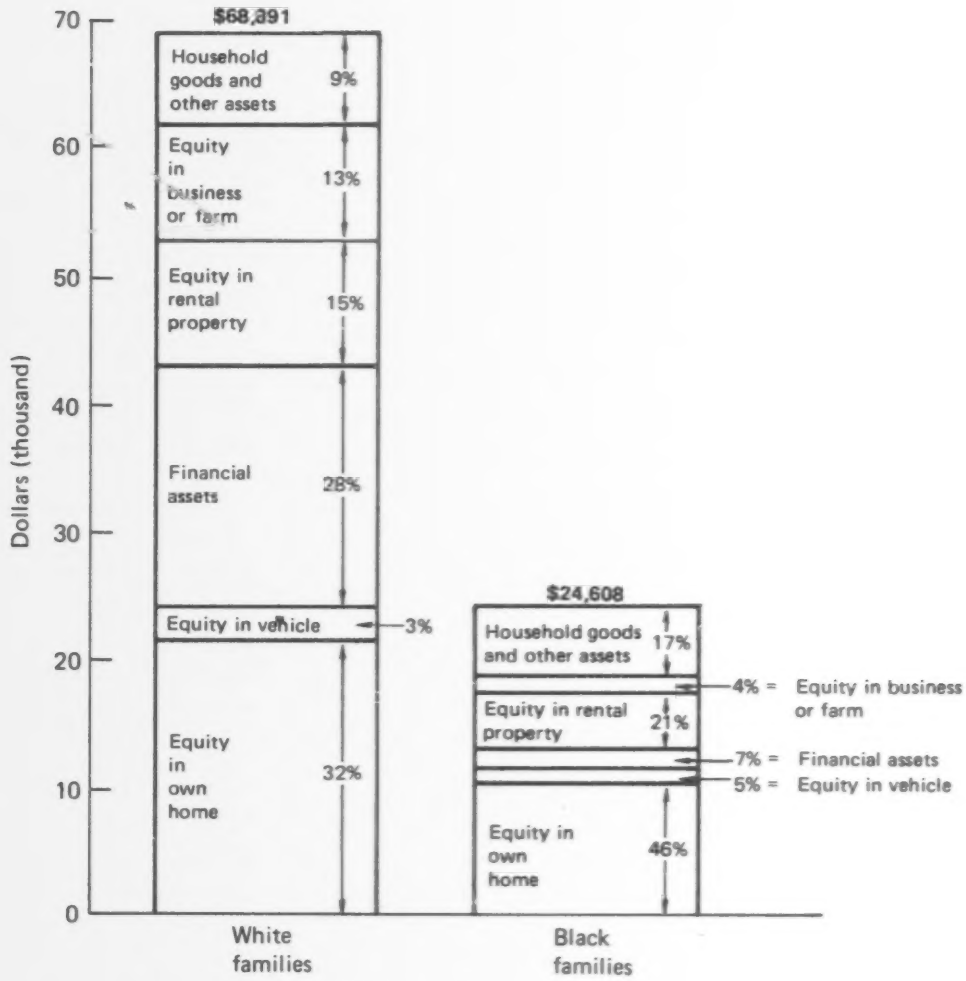

Figure 1. Average wealth of black and white families, 1979.

Source: Data from Pearl and Frankel 1982.

Table 1. Distribution of personal wealth, blacks and whites, 1979

Asset category	Wealth in Billions of Dollars			Percent of wealth held by blacks
	White	Black	Total	
Total wealth	4,875	211	5,086	4.1
Equity in home	1,560	97	1,657	5.9
Equity in vehicles	146	11	157	7.0
Financial assets	1,365	15	1,380	1.1
Equity in rental property	731	44	775	5.7
Equity in business	439	8	447	1.8
Equity in farm	195	--	195	*
Household goods and other assets	439	36	475	7.6

Source: Derived from data on wealth in Pearl and Frankel, 1982, Table 6, and from data on number of black and white households in U.S. Bureau of the Census, Current Population Report, Series P-60, No. 132.

-- Less than 500 million.
* Less than .05%.

Table 2. Racial differences in household wealth, 1979

	Percentage of households with this type of asset			Average size of holdings for households with this type of asset		
	Black	White	Black/ white ratio	Black	White	Black/ white ratio
Equity in own home	47.9	62.4	0.768	25,589	35,599	0.719
Equity in vehicles	54.4	70.4	0.773	2,043	2,808	0.728
Financial assets*	78.0	95.3	0.818	2,180	20,413	0.107
Equity in rental property	7.2	14.7	0.490	71,395	69,926	1.021
Equity in own business	2.2	10.8	0.204	71,514	68,140	1.050
Equity in own farm	0.1	2.7	0.037	55,250	120,862	0.457
Household goods and other assets	100.0	100.0	N/A	4,438	6,270	0.708

Source: Pearl and Frankel 1982, Table 6.

* Includes, cash, checking accounts, savings accounts, savings bonds, certificates of deposit, loans, stocks, and mutual funds.

the Annual Housing Survey, show an even wider disparity in home ownership, and slightly lower home ownership among blacks.)

Second, in most asset categories, the average value of black holdings was far less than the average value of white holdings. Among families who had some equity in their own home, the average white family had accumulated $35,599, while the average black family had accumulated only $25,589.

Two asset categories are exceptions to this rule: equity in rental property and equity in a business. In these two categories the average holdings of whites are slightly lower than those of blacks. In both categories, however, the proportion of blacks who have assets is quite small--7.2 percent for rental property and 2.2 percent for businesses. Consequently, the number of blacks in this sample survey with these types of assets is so small that the figures are not very reliable. It is unlikely, for example, that the average value of equity in a business is larger for blacks than for whites, as the data here would indicate. This difference is more likely due to sampling error or other errors in data collection and processing.

The mean* income for black households in 1979 was $13,002; that for whites was $20,325 (U.S. Bureau of Census 1983b). Thus, the income of whites was about 1.6 times that of blacks, but the wealth of whites was almost three times that of blacks. In other words, for every dollar earned by the average white family, the average black family earned about 60 cents, but for every dollar of wealth held by the average white family, the average black family held only 36 cents. The fact that whites had more wealth than blacks should not be surprising, but the size of the gap between blacks and whites is very large given the income differences.

Not only did whites have higher incomes than blacks, but the ratio of wealth to income was higher for whites than it is for blacks: the wealth-to-income ratio for blacks was 1.89; that for whites was 3.39. One explanation is that the average white family has undoubtedly inherited more wealth than the average black family. Another is that only the portion of income not needed for immediate consumption is available for wealth-accumulating activities such as saving and investment. Because blacks have lower incomes than whites, they have much less income available for investment after immediate necessities are taken care of. We will return to this theme later in the paper.

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* Mean income is used here instead of median income to make the income and wealth figures comparable.

In some ways, the relationship between income and wealth is circular. Those with high incomes are able to accumulate wealth and some of that wealth generates income. For the average family, income from investments (dividends, interest, net rental income, income from estates or trusts, and net royalties) amounted to $2,321 in 1981; but for those families in the highest income bracket ($75,000 and over) average income from investments amounted to $14,633 (U.S. Bureau of the Census 1983b, Table 20). Furthermore, income from investments tends to be underreported more than income from other sources, so the wealthy may get an even larger portion of their income from investments than is reflected in official figures (U.S. Bureau of the Census 1983b, Table A-2). For reasons that will become apparent later in this report, investment income is much more prevalent among whites than blacks. For example, in 1981, white families received income of $93.2 billion from property while blacks received only $1.0 billion (U.S. Bureau of the Census 1983b, Table 33).

3. COMPOSITION OF WEALTH

The composition of black and white wealth, shown in Table 3, indicates that there are some important differences between the races. For example, in 1979, equity in a home accounted for almost half the wealth of blacks (46 percent) but less than a third of the wealth of whites (32 percent). This is not because whites have less valuable homes than blacks, but because whites have more wealth in other types of assets. Whites have higher homeownership rates, and generally have more valuable homes than blacks. The average value of all homes, reported in the 1980 Annual Housing Survey, was $51,300; the average value for homes owned by blacks was $33,500 (U.S. Bureau of the Census 1982a).

The value of the average housing unit increased from $17,100 in 1970 to $51,300 in 1980 (U.S. Bureau of the Census 1982a). This tripling of housing values in the 1970s far outstripped inflation as reflected by the Consumer Price Index (CPI), which increased 112 percent from 1970 to 1980. This means that, in general, those who owned houses in 1970 profited from that ownership while those who did not missed an excellent opportunity to accumulate wealth in the form of equity in a home. Home ownership not only resulted in accumulating equity through appreciation, but also boosted real income through federal income tax deductions for interest on mortgages and for local property taxes.

In 1970, 41.6 percent of blacks lived in owner-occupied housing units, compared with 65.4 percent of whites (Leigh 1982). Thus, nearly seven out of ten white households profited from the surge in housing values in the 1970s, compared to only about four out of ten black households.

People who have money left over after they have met their housing, food and transportation needs often invest that money in financial assets, which include cash, checking accounts, savings accounts, savings bonds, certificates of deposit (CDs), bonds, loans, stocks, and mutual funds. Only 7 percent of black wealth is

Table 3. Composition of personal wealth for blacks and whites in 1979

Asset category	Percent of total wealth in each asset category	
	Black	White
Equity in home	46	32
Equity in vehicles	5	3
Financial assets	7	28
Equity in rental property	21	15
Equity in business	4	9
Equity in farm	--	4
Household goods and other assets	17	9

Source: Pearl and Frankel, 1982.

-- Rounds to zero.

invested in financial assets, while 28 percent of white wealth is composed of such assets. Moreover, while 95.3 percent of white households have financial assets of some type, only 78.0 percent of black households have this type of wealth. Consequently, blacks hold only 1.1 percent of personally held financial assets in the country (see Table 1).

Twenty-two percent of all black households--roughly 1.9 million households--have no significant financial assets. This is roughly equivalent to the number of black families with incomes below poverty level in 1979. Among households that have such assets, the value of holdings for the average white household was about ten times the value of the average black household: $20,413 for whites, $2,180 for blacks.

It is possible that this difference is partly the result of differences in investment preferences, but the major factor is probably the lack of money available to blacks for investment in financial assets. After necessities such as housing, transportation, and household furnishings are taken care of, few blacks have much money left over to invest in assets like stocks or bonds. This situation was summed up by Terrell (1971, p. 366) as follows: "Black family units, with their substantially lower levels of absolute wealth accumulation, are forced by necessity to hold a larger share of their lower wealth in assets yielding the essential consumption services of transportation and housing before financial and other nonfinancial assets may be acquired."

Financial assets are usually very liquid, which may be an advantage in times of sudden changes in the economy. For example, when banks began offering money market accounts with high interest rates, more than $180 billion shifted to this type of investment in the United States in less than a month (Brown 1983). The fact that whites have more than one-fourth of their wealth in financial assets gives them a distinct advantage in the effort to maximize returns on investments.

More detailed information about the distribution of financial assets is given in Table 4. Cash and checking accounts are the most readily available form of assets. These can be drawn upon immediately to meet emergency situations or to take advantage of opportunities that might arise suddenly, such as a sale. Slightly over 90 percent of the white households surveyed reported having cash or checking accounts, while just over 70 percent of blacks reported such assets. For households with cash or checking accounts, the average white household had about twice the value of the average black household: $1,117 for whites, $545 for blacks.

Savings accounts may be seen as the simplest form of investment or wealth; Table 4 shows that less than half of the black households (48.2 percent) have assets in this form,

Table 4. Distribution of financial assets by race, 1979

Type of financial asset	Percent of households with this type of asset		Average size of holdings for households with this type of asset	
	Black	White	Black	White
Total	78.0%	95.3%	$2,180	$20,413
Cash, checking accounts	70.7	91.1	545	1,117
Savings accounts	48.2	77.0	1,670	5,107
Savings bonds	10.8	22.9	396	1,808
CDs, bonds, loans	1.6	17.5	15,823	38,786
Stocks, mutual funds	3.4	21.8	6,544	33,838

Source: Pearl and Frankel 1982, Table 6.

compared with more than three-fourths (77.0 percent) of white households. The average value of savings accounts for white families is about three times that of black families: $5,107 for whites and $1,670 for blacks.

The lack of savings or checking accounts reported by a substantial portion of the black population reflects the fact that there are a significant number of blacks who are not regular customers of a banking institution. To send money, these people often rely on money orders, which are more expensive than checks; to cash checks they receive, they go to neighborhood stores, which often charge a check cashing fee of as much as five cents on the dollar. These are only the minor costs of operating outside the mainstream financial structure.

In the remaining categories of financial assets--savings bonds, certificates of deposit, bonds, loans, and stocks and mutual funds--the number of black households with assets is too small to provide reliable data on average size of holdings. In every case, however, the data suggest that a far higher percentage of white families than black families own these types of assets, and that the average value of holdings for white families is much higher than that for black families.

Interestingly, rental property makes up a larger part of black wealth than of white wealth. Over one-fifth of black wealth (21 percent) but only 15 percent of white wealth is made up of equity in rental property. This may reflect a preference among blacks to put their money in tangible assets such as houses rather than in paper assets such as stocks and certificates of deposit. It also may be the case that many blacks find it difficult to sell their former homes after they move. Given the segregated nature of housing markets and the smaller resources of black families, some blacks may find that when they move out of a house they cannot sell it and are forced to put it on the rental market. In other words, many blacks may be forced into rental investment because of housing market constraints. The small number of blacks in the sample with equity in rental property, however, precludes a definitive analysis on the basis of these figures.

There also may be a subtle definitional problem, which could explain the comparative wealth in rental property among blacks and whites. If one owns a single house or a small apartment building that is rented, it is probably reported as rental property. If one owns several rental properties, however, they probably are reported in the form of a business. Whites are more likely than blacks to own a large number of rental properties, which may thus be reported as equity in a business rather than equity in rental property.

Equity in a farm or business accounts for 13 percent of white wealth but only 4 percent of black wealth. This parallels other reports, which show that blacks own only 3 percent of all businesses and a very small proportion of the nation's farms (Joint Center for Political Studies 1983 and U.S. Commission on Civil Rights 1982). Furthermore, the businesses and farms that blacks own are less valuable than those of whites.

Data from the 1977 Census of Business indicate that blacks owned 231,203 businesses at that time, but only a few hundred had receipts of more than $1 million (Joint Center for Political Studies 1983). In 1977, 81.3 percent of black-owned businesses had no paid employees other than the owner (compared with 75.5 percent of non-minority businesses).

Between 1969 and 1978, the number of black-owned farms dropped by 57.3 percent, from 133,973 to 59,271. The vast majority of black-owned farms (85.6 percent) had sales of less than $20,000 a year, and most (56.5 percent) were less than 50 acres in size (U.S. Commission on Civil Rights 1982).

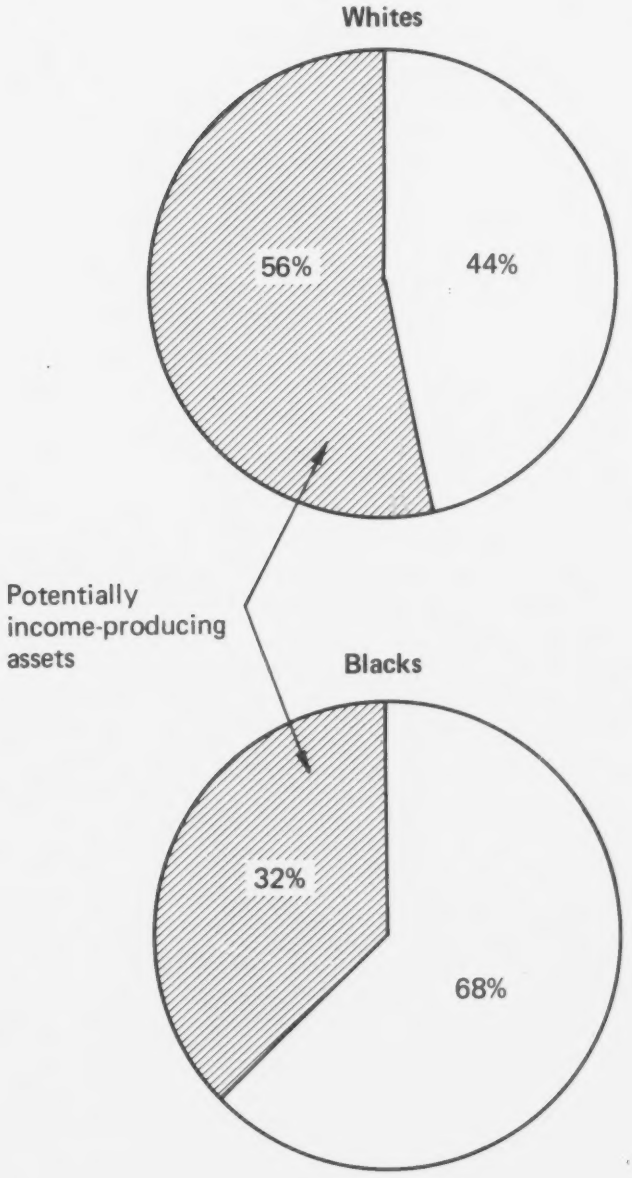
Household goods and other assets make up 17 percent of black personal wealth but only 9 percent of white personal wealth. This asset category consists of essential household items such as furniture and appliances. The average value of household goods and other assets is $4,438 for blacks and $6,270 for whites.

Three types of assets are likely to bring income in return: financial assets, rental property, and ownership of businesses or farms. Black households have a much smaller proportion of their wealth invested in such assets than do white households (Figure 2). Thus, the wealth of white families actually expands their income, to a much greater extent than for black families. Wealth that is tied up in a home, a car, or household goods in a sense represents consumption rather than investment, because these assets do not regularly generate income; over two-thirds of black wealth is tied up in these durable goods. Thus, this difference in the distribution of wealth is also likely to perpetuate itself.

Two subtle factors should be taken into account in thinking about the wealth differences between blacks and whites. First, the black population is younger than the white population. The median age for blacks is 25; for whites it is 31. Because wealth is generally accumulated over a lifetime, older people tend to have more of it than younger persons. Data from Pearl and Frankel (1982) indicate that households headed by persons between 55 and 64 years old have an average wealth of $110,230, while households whose heads are under 35 years old have wealth of $22,428. Ten percent of the white population is 55 to 64, compared to only 7 percent of the black population. Because a smaller proportion of the black population is in the older age groups, one would expect the average wealth of all blacks to be smaller than the average

Figure 2. Portion of wealth in potentially income-producing assets, blacks and whites, 1979.

Source: Data from Pearl and Frankel 1982.



wealth of all whites, if the distribution of wealth by age is the same among blacks as among the population as a whole. Social changes over the last three decades, however, have produced a different distribution of wealth among blacks--younger blacks may in fact have larger assets than their elders. In either case, the different age structures certainly cannot account for the entire wealth gap between blacks and whites, but it may explain a small portion of it.

The differing regional distribution of blacks and whites is a second factor to consider. More than half of the country's blacks live in the South, which historically has been poorer than other regions. Although the economic climate in the South has improved recently, median income in the South is still lower than in the North or West, and the ratio of black to white income is lower in the South than anywhere else. At least part of the racial difference in wealth may be due to the fact that a high percentage of blacks live in the South.

As in many other situations of this type, one should control for the effects of numerous socioeconomic characteristics, such as education and occupation, in order to ascertain the true relationship between race and wealth accumulation. For example, it is well documented that blacks have lower average educational attainment and achievement levels than whites, and we know that both income and wealth accumulation are related to educational level. However, the available data do not allow us to determine how much of the racial difference in wealth is attributable to differences in socioeconomic characteristics such as education.

4. CHANGES BETWEEN 1967 AND 1979

Examination of changes in wealth accumulation during the 1970s will help us think about where blacks and whites are headed in the 1980s and beyond. Unfortunately, relatively few studies of wealth have been made, and even fewer have examined racial differences. Some data collected in 1967, however, have been used to examine the comparative wealth of blacks and whites (Terrell 1971). The methodologies used in the 1967 and 1979 studies differ slightly, but they are similar enough to reflect major trends.

In the 1967 study, the average wealth of whites was $20,153; that of blacks, $3,779. The black/white wealth ratio was 0.19. In other words, for every dollar of wealth held by the average white family in 1967, the average black family held about 19 cents. The ratio of black to white wealth in 1979 (0.36), is almost double the ratio in the 1967 study, indicating that progress toward parity has been made. Given the starting point, however, enormous changes are required before blacks even begin to approach equality. And even though blacks appear to be gaining on whites in terms of relative wealth, the gap in absolute terms has grown from $16,374 in 1967 to $44,283 in 1979. Of course, inflation played a part in the increase; but even in constant 1979 dollars, the gap changed from $35,600 to $44,283.

Between 1967 and 1979, little change is apparent in the proportion of wealth accounted for by homes, vehicles, or financial assets for either blacks or whites, but some interesting changes did take place in the categories of equity in rental or other property and equity in businesses or farms (Table 5). For blacks, the percentage of total wealth invested in rental or other property doubled over the twelve-year period.* The increased

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* Note that the percentage distribution of wealth among categories is calculated on a different basis for this part of our discussion than previously (see note to Table 5).

Table 5. Distribution of wealth by asset category for blacks and whites in 1967 and 1979

	Percent of total wealth in each asset category			
	Black		White	
Asset category	1967	1979*	1967	1979*
Equity in home	56	55	32	35
Equity in vehicles	8	6	5	3
Equity in rental or other property	12	25	9	16
Equity in a farm or business	14	5	23	14
Financial assets	10	8	30	31

Sources: Data for 1967 taken from Terrell 1971; 1979 data taken from Pearl and Frankel 1982.

* Value of household goods was not collected in the 1967 survey, so those figures were removed from the 1979 data for calculations in this table. This is why the percentage figures for 1979 in this table are different from the percentage figures in Table 3.

share of wealth accounted for by rental property probably is related to the enormous increase in the value of housing during the 1970s.

The other important change among blacks was a decline in the percentage of wealth composed of equity in farm or business, which went from 14 percent in 1967 to only 5 percent in 1979. This decline may be related to a growth in other types of assets. The aggregate wealth in farm and business equity for blacks rose from $3.2 billion in 1967 ($7 billion in 1979 dollars) to over $8 billion in 1979. Another factor may be the decline in the number of farms operated by blacks from 133,973 in 1969 to 59,271 in 1978. The number of black-owned businesses grew from 163,073 in 1969 to 231,203 in 1977.

The white population showed similar shifts in the composition of wealth, but not to the same degree as blacks. Equity in rental or other property shifted from 9 percent of white wealth in 1967 to 16 percent in 1979, and the percentage of wealth in farm or business equity went from 23 percent in 1967 to 14 percent in 1979.

Wealth is passed on from generation to generation. Much of the difference in personal wealth seen in 1979 is certainly due to the racial climate and the lack of economic opportunities for blacks before the civil rights advances of the last two decades; and some of the disparities that exist today will be inherited by future generations.

There is some evidence that the climate of the 1960s and the 1970s has been more conducive to black economic progress than earlier. Table 6 shows ratios of black/white median incomes by age for people in various family/marital situations. In every family status category, the ratio of black to white income is higher for persons under 35 years of age than it is for older persons, which suggests that the economic gap between blacks and whites may grow smaller in coming decades. For example, families headed by young black married couples in which both partners are in the labor force have median family incomes that are 91 percent of similar white families. This group, which represents 29 percent of black households (but 39 percent of white households) may possess the type of "discretionary" income that makes possible investment and wealth accumulation. (U.S. Bureau of the Census 1983b).

However, other data should cause us to be cautious about projecting a closing of the gap between blacks and whites. First, the percentage of black families headed by single females has grown rapidly during the past two decades, from 22 percent in 1960 to 42 percent in 1980 (Felder 1983, Table 9). Further, black unemployment rates have been at double-digit levels for six out of the past eight years, and the labor force participation rate of

Table 6. Ratio of black to white median income by age and family status, 1981

	Family Status			
	Married-Couple, Wife not in Labor Force	Married Couple, Wife Employed	Female-Headed families	Unrelated Individuals
18-24	0.87	0.91	0.75	0.71
25-34	0.69	0.91	0.73	0.73
35-44	0.60	0.86	0.55	0.60
45-54	0.56	0.81	0.55	0.63
55-64	0.65	0.74	0.59	0.52
65 and older	0.57	0.84	0.60	0.61

Source: U.S. Bureau of the Census 1983b, Tables 23 and 24.

black males has declined dramatically compared with that of white males. (Felder 1983, Table 14 and Figure 4).

Finally, there is evidence that blacks and whites at the same income level accumulate wealth at different rates. Terrell (1971) found that blacks at every income level had far less wealth than whites at the same income level. Even at higher income levels, blacks typically had less than half the wealth of similar whites. Henretta (1979) also found that among older men with similar socioeconomic characteristics, whites tended to have far more wealth than blacks. Both studies reflect conditions of the past, but undoubtedly, not all impediments to black wealth accumulation have been removed in the space of a couple of decades. Even if blacks earned as much as whites, they might still be unable to convert their income to wealth at the same rate whites do.

One big obstacle in this conversion is home ownership patterns. Equity in a house is the core of the average family's wealth. For several reasons, this could be a problem in future expansion of black wealth. First, since the current rate of home ownership is much lower for blacks than for whites, the proportion of blacks that inherit a house will be much lower than the proportion of whites. Moreover, because blacks generally have larger families than whites, what little inheritance there is must be split more ways.

For young black families, who are unlikely to have inherited money or houses and who are only now gaining the funds to consider buying a house, recent economic conditions may stymie the ability to start building wealth. Increases in the average cost of a house and high interest rates mean that fewer and fewer people can afford to buy their first home. In analyzing the housing affordability crisis facing blacks in the 1980s, Leigh (1982, p. 56) concluded, "As the mechanisms for both lowering housing costs and increasing incomes are jeopardized, the ability of black households to afford and obtain 'decent, safe, and sanitary housing' clearly diminishes." Discriminatory real estate practices and "red-lining" by financial institutions present additional barriers for blacks.

Even for blacks who already own a home or eventually manage to purchase a home, the outlook is not entirely positive. Outside the rural South, the majority of black-owned homes are located in or near the core of large cities, most of which are experiencing population loss and deterioration of tax bases and infrastructure. Between 1970 and 1980, central cities experienced a net outmigration of over 13 million people (U.S. Bureau of the Census 1981). Average house values in these locations are not likely to appreciate rapidly.

Furthermore, racial segregation in housing adversely affects housing values for blacks. A recent report (Taeuber 1983) shows

that there was only a slight decline in segregation from 1970 to 1980, and that major cities remained highly segregated in 1980. For the 28 major cities examined in the study, about 80 percent of the population would have to move from their present home to bring about complete racial integration. If segregation continues to decline at the rate it did in the 1970s, it will be 150 years before cities are racially integrated.

There is little demand among whites for most black-owned homes. Data from the mid-1970s show that only 3.8 percent of whites who moved relocated in houses formerly occupied by blacks. On the other hand, 29.2 percent of blacks who moved ended up in houses previously occupied by whites (Spain, Reid, and Long 1980). If black-owned homes are restricted to a black submarket for resale, demand and, consequently, appreciation are limited.

Data on housing demolitions provide one indication of the kinds of homes many blacks end up with and what happens to those homes. Even though blacks make up only about 12 percent of the population, housing units that have recently been demolished are three times as likely to have been last occupied by blacks as by whites (Dahlmann 1982, Table 2). It is clear that a large portion of the black population ends up with the worst housing, often in the least desirable locations. This kind of housing is not likely to appreciate significantly.

For all these reasons, black-owned houses do not appreciate as rapidly as other types of houses (Lake 1979; Rapkin and Grigsby 1960). And since equity in their own home and rental property accounts for 67 percent of all black wealth, the relative appreciation of black-owned houses is particularly important. Blacks seem to have the preponderance of their investments tied up in areas where they cannot expect as high a return as whites.

One exception to the pattern results from gentrification. In most large cities, there is at least one area where middle- and upper-middle-income families are moving into neighborhoods that had been predominantly lower income and in many cases predominantly black. While this movement drives up the value of homes in these areas, the phenomenon is isolated and has little impact on aggregate trends. Despite pockets of gentrification, between 1975 and 1980 there was a net migration of 6.3 million people from central cities (U.S. Bureau of the Census 1981), and the trend appears to be accelerating: there was a net outmigration of 2.2 million persons from 1980 to 1981 (U.S. Bureau of the Census 1983a).

Until the forces that devalue black-owned homes begin to change, there appears to be little hope that black-owned homes will appreciate as rapidly as white-owned homes. Since equity in a home is the biggest single asset category in wealth portfolios, this represents a major roadblock for wealth parity.

5. RECENT TRENDS

Given the change in economic climate between the 1970s and the early 1980s, one might ask what has happened to personal wealth since 1979. Although we have no firm data on recent changes in wealth, there are some grounds for reasonable speculation.

If wealth kept pace with inflation (as measured by the CPI) between 1979 and 1982, then the average wealth of families would have increased by 32.6 percent (U.S. Bureau of Labor Statistics 1983). If black and white personal wealth increased equally, then the average wealth of black families in 1982 would be $32,630 and the average wealth of white families would be $91,349. (Obviously, this calculation is extremely crude and is simply used to provide "ballpark" figures.)

But economic conditions since 1979 have not been conducive to generating or accumulating wealth. In 1981, 1982, and the first half of 1983, unemployment reached the highest levels since the Great Depression of the 1930s. These have been particularly difficult times for blacks; their unemployment rate has been more than twice that of whites. The black unemployment rate increased from 12.2 percent 1979 to 20.8 percent in December 1982, while the white unemployment rate went from 5.1 to 9.7 percent during the same period (U.S. Bureau of Labor Statistics 1983). Despite some claims that the economy has turned the corner and things are getting better, the number of unemployed blacks as of June 1983 totaled over two million. This unemployment figure does not include those who have given up looking for jobs and dropped out of the labor force. Farley and Bianchi (1983) estimated that 12 percent of working-age black males were not in the labor force, compared with 5 percent of white males.

Furthermore, median household income measured in constant dollars fell from $26,047 in 1979 to $23,433 in 1982. Among white households, the median income fell from $27,180 to

$24,603, a 9.5 percent decrease; for blacks it declined by 11.6 percent, from $15,391 to $13,598 (U.S. Bureau of the Census 1983c).

What does this mean for wealth accumulation? When their real income falls or they become unemployed, people have only a few options. One of the things they can do is draw on their savings and investments. Because the unemployment rate has been significantly higher for blacks than for whites and because earnings have fallen more for blacks than whites, we can reasonably assume that blacks have had to draw on savings and investments more than whites.

What kinds of savings have blacks had available? The asset categories used earlier can be roughly divided into two groups. Some assets--equity in a house and car and household goods--are a form of wealth, but they would normally be liquidated only in the direst circumstances. Rental property and particularly financial assets, on the other hand, can easily be converted to cash without major disruption in day-to-day living. Equity in a business or farm may be a little different, depending on the situation. Equity in a business may represent a person's livelihood or it may represent an investment independent of employment.

Blacks have 68 percent of their wealth tied up in "basic assets" and much less available in forms that could be liquidated without causing disruption to their lives. In many ways, then, blacks have had a double setback in the past few years. They have been hurt the most by falling real income and high unemployment, and they have relatively few assets that can easily be turned into cash. It is likely that black families more often than whites have had to draw on their financial reserves or even sell their homes, cars, or some household goods during periods of prolonged unemployment in the early 1980s.

Therefore, it is reasonable to speculate that the gains in wealth accumulation blacks made between 1967 and 1979 have not continued, at least not at the same rate. When wealth data from the upcoming Survey of Income and Program Participation (SIPP) have been tabulated, they will probably show that the rate of wealth accumulation among blacks slowed in the early part of the 1980s.

How did blacks narrow the black/white wealth gap between 1967 and 1979? Table 7 shows that the portion of the black population with yearly incomes over $20,000 (in constant dollars) grew from 17.3 percent in 1960 to 35.2 percent in 1970 and to almost 39 percent in 1979. Growth of this group of upper-middle-class blacks was probably largely responsible for the increase in wealth among blacks between 1967 and 1979. This would be entirely consistent with the economic polarization of the black

Table 7. Distribution of black families among low-, middle-, and high-income categories in selected years

	Low Income (Under $10,000) %	Middle Income ($10,000 - $20,000) %	High Income (Over $20,000) %	Total %
1960*	47.6	35.1	17.3	100.0
1970	30.6	34.2	35.2	100.0
1979	32.5	28.9	38.6	100.0
1981	36.5	28.3	35.3	100.0
1982	37.8	26.9	35.2	100.0

Source: U.S. Bureau of the Census, 1983d, Table 3.

Note: Income categories defined in constant dollars.

* For 1960, only data on "black and other races" are available, but most people in this category were black.

population noted recently by several analysts (see, for example, Farley and Bianchi 1983; Felder 1983).

Most of the gains in black wealth in the late 1960s and 1970s occurred in housing and transportation assets. In 1967 the average black family had only 20 to 30 percent of the equity in a house or vehicle that a white family had (see Terrell 1971, Table 2), but by 1979 the average black household had equity in a house, vehicle, and household goods that equaled about 70 percent those of whites. During the 1960s and 1970s, a sizable portion of the black population achieved a lifestyle that might be called middle class; this lifestyle includes a substantial investment in housing and transportation. The growth in the size of this group of blacks during the 1960s and 1970s is probably responsible for the narrowing of the gap between black and white wealth from 1967 to 1979.

From 1979 to 1982, however, the portion of the black population in this upper middle-class group declined from 38.6 percent to 35.2 percent. This drop reflects the high unemployment rate and large drop in real income experienced by blacks since 1979, and it may have seriously affected the accumulation of wealth by blacks in the past few years. The gains made by blacks in the 1960s and 1970s may be in jeopardy if the conditions of the early 1980s continue or if blacks do not recover from the recession to the same extent as the rest of the population.

6. CONCLUSION

The single most important implication of this study is that one needs to use other measures in addition to income to develop a complete assessment of the comparative economic well-being of blacks and whites. A comparison of average family income shows that blacks have about two-thirds the income of whites, but an examination of net wealth shows that blacks have only about one-third of the average wealth of whites. Consequently, relying on income to compare economic status creates a partial and perhaps misleading picture of the economic gap separating blacks and whites by making economic differences between the races appear smaller than they really are.

Although progress has occurred in recent years, the economic gap between blacks and whites remains enormous. The road toward economic equality between blacks and whites probably is going to be longer and more problematic than income figures might lead one to believe. Even if income parity were reached, there is no assurance that equality of wealth would follow. In fact, some factors, such as inheritance and housing appreciation, suggest that equal income would not result in equal wealth.

Some of the toughest questions have not been addressed by this study. For example, the data used here are not available in a form that would allow us to look at the wealth of blacks and whites with similar socioeconomic characteristics. Such specific comparisons would allow us to determine how much of the current differential in wealth is due to circumstances of the somewhat distant past and how much is due to current patterns of wealth accumulation. We also do not have the data available in a form that would allow us to examine the effects of differing geographic distribution (notably the high concentration of blacks in the South) or age structure.

The information used in this study is taken from a 1979 survey designed to test methodology and measurement procedures

for the Survey of Income and Program Participation (SIPP). Although the Reagan administration initially had eliminated the SIPP program, Congress recently restored funds for the program. The SIPP program should begin collecting data within a year and thereafter will supply us with some useful indicators of well being, such as personal wealth, which will provide a more complete picture of our population.

APPENDIX: LIMITATIONS OF THE DATA

The wealth figures employed in this study are summary statistics from a large sample survey. At this point, these statistics, taken from a paper written by Pearl and Frankel (1982), are the only form of wealth data available from this survey. The Census Bureau is scheduled to release a computerized microfile soon, which will allow more detailed analysis.

As in all large sample surveys, there are undoubtedly errors in the data. The figures come from a sample survey of about 7,000 households. While the sample was chosen to be representative of all households, there is always some error involved in making estimates of the population from a sample. The dangers are particularly great for blacks, because they make up a relatively small part of the population and consequently of the sample. In those categories where only a small portion of the black population claimed ownership of a certain type of asset, such as equity in a business (2.2 percent) or equity in rental property (7.2 percent), the figures are based on a very small number of cases and may be unreliable.

We also should note that this was a household survey; it did not include, for example, people who live in group quarters such as military barracks or college dormitories, or people who are homeless. The 1980 census found 3.1 percent of blacks living outside households, compared to 2.5 percent of whites (U.S. Bureau of the Census 1983c, Table 46). Because the nonhousehold population is disproportionately black and is generally less wealthy than people in households, the comparative wealth of blacks would be even lower if these people were included in the measure.

The concept of wealth itself is not universally agreed upon. For example, a vast literature on human capital suggests that investments in oneself, such as college education, are forms

of personal wealth; obviously such forms of wealth are not included in this survey.

For the forms of wealth that are included, there are problems of accurate measurement. For example, in assessing the equity in a home, each respondent was simply asked how much he or she thought his or her house was worth. The amount still owed on the house, i.e., the mortgage, was subtracted from the respondent's estimate of the value, to provide a figure for equity. But people make mistakes about the value of their homes (Robins and West 1977). Someone who has not shopped for a house in a long while may be astounded to find out how much his or her house is really worth. Others, caught up in the recent spiraling value of housing, may overvalue their houses. Thus, there are elements of subjectivity and error in these figures.

Several categories of assets were not included in this analysis, either because they were not collected in the survey or because they were collected but did not appear to be reliable enough to be used. For example, the cash surrender value of life insurance, the value of membership in private pension plans, the value of jewelry, and ownership of undeveloped land were not included in the wealth figures. If these sources of wealth had been included, they would probably have increased white wealth far more than black wealth, thus exacerbating the wealth differences between blacks and whites shown in this paper.

It should also be noted that use of the arithmetic average (the mean) in portions of this analysis could provide misleading impressions. The mean is sensitive to extreme values, and a few families with extremely high wealth figures may result in a mean that is not very reflective of most individuals. To use a simple example, if nine people had no wealth, and one person had holdings of a million dollars, the average wealth for the ten-person group would be $100,000, which is not a very accurate description of anyone in the group and certainly doesn't convey the condition of the nine people in the group without wealth. Use of the median would avoid this problem, but the median figures were not available.

In spite of all these limitations, I believe it is worth making this preliminary effort at assessing the major differences in wealth between blacks and whites. If anything, the measurement errors mean that the figures presented here are most likely a conservative measure of black/white differences. As additional data become available, more complete and precise studies should be undertaken.

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ABOUT THE AUTHOR

William P. O'Hare is a senior research associate at the Joint Center. Previously, he was deputy director and senior research associate of the National Social Science and Law Center, Inc. He was a visiting Fulbright professor at the University of San Carlos in the Philippines during 1980-1981. Dr. O'Hare's primary research interest is the use of statistics in policy making.

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